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C O N F I D E N T I A L SECTION 01 OF 02 AMMAN 004780

SIPDIS

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TAGS: [PGOV](#) [EAID](#) [ECON](#) [EPET](#) [JO](#)

SUBJECT: THE COMBUSTIBLE POLITICS OF FUEL SUBSIDIES IN JORDAN

REF: A. AMMAN 4652

[B.](#) AMMAN 4362

Classified By: CDA David Hale for Reasons 1.4 (b), (d)

SUMMARY

[¶1.](#) (C) Proposed plans to end fuel subsidies have already elicited howls of protest throughout Jordan. Numerous MPs have confirmed that blocking an increase in fuel prices is one of the top concerns of their constituents, and the Islamic Action Front has made opposition to fuel price increases a centerpiece of its strategy to boost its popular appeal. The partial lifting of fuel subsidies in 1989 sparked riots in southern Jordan and led to the collapse of the government. Eager to avoid a similar crisis, the GOJ plans to phase in the lifting of subsidies over a period of three years or less. End Summary.

PAYING MORE FOR FUEL

[¶2.](#) (C) In an effort to shore up a bleak budget picture, and under pressure from the IMF, the GOJ is on the verge of agreeing to a plan to remove subsidies on fuel products, as well as on other items. (NOTE: While the government has argued for at least a three-year period in which to raise prices to market levels, the Finance Ministry sent a letter on June 12 to the British and Germans laying out a more aggressive plan that would end fuel subsidies in less than three years. END NOTE.) Currently, the largest government subsidy goes toward diesel fuel, which is of critical importance to farmers and the Jordanian trucking sector which forms an important part of the economy of the restive region around the city of Ma'an (septel) in the south. Kerosene, another subsidized fuel product, is used by millions of poor Jordanians to heat their homes and for cooking.

[¶3.](#) (C) While no formal announcement of a fuel price hike has been made, cabinet members informed Charge that the government agreed in principle on June 7 to start this year with a phased elimination of subsidies by 2007. According to these ministers, PM Badran -- who must still face a confidence vote in parliament in the next six months -- was very reluctant to begin this year, and was persuaded only by a forceful presentation by an IMF mission. The issue has already drawn intense public attention. For example, two major Arabic dailies, Al-Rai and Al-Arab Al-Yawm, printed front page reports June 13 on the impact of high fuel prices on the growing budget deficit and tentative GOJ plans to raise the price of certain fuels in response. Initial reaction among the general public to a proposed fuel price hike has been resoundingly negative. Numerous MPs, particularly those representing underprivileged areas and refugee camps, have told poloff that the price of fuel is one of the top concerns of their constituents and that they are under heavy pressure to vote against any price increase in parliament. Attempting to exploit the public mood, the Islamic Action Front (IAF) has publicly called on the GOJ to categorically reject pressure to raise fuel prices and has made opposition to the elimination of fuel subsidies a central tenet of its strategy to boost its popular appeal (ref B).

A DANGEROUS PRECEDENT

[¶4.](#) (C) Post contacts are unanimous in cautioning that the lifting of fuel subsidies could have serious negative consequences for the GOJ if implemented too abruptly and without a concerted effort to soften the blow on poorer Jordanians. Many hearken back to the political crisis of 1989 that was triggered by a similarly unpopular fuel price hike. Specifically, in early 1989 the GOJ began implementing an IMF structural adjustment program in response to mounting foreign debt. In April of that year, the government began lifting several price supports, including a fuel subsidy, sending gasoline and diesel prices up by 30% overnight. This measure hit the trucking industry around Ma'an particularly hard, which was already suffering from a slowdown following the end of the Iran-Iraq war. Riots broke out in Ma'an the

day the reforms went into effect and at least five protesters were killed by police (in addition to dozens of injuries). The unrest spread quickly throughout Jordan, coinciding with the start of Ramadan and reflecting strong nationwide dissatisfaction with the government's IMF-inspired policies. Faced with growing discontent, the government eventually collapsed.

15. (C) The replacement of the cabinet did not end the crisis, however. Although the early demands of the rioters did not include calls for political reforms, the late King Hussein approved national parliamentary elections (the first since the suspension of parliament following the 1967 war with Israel) in an effort to deflate tension over economic issues, or at least to direct dissent into channels that the state could monitor and control.

16. (C) Social unrest over price hikes has not been limited to fuel. In August 1996, for example, riots broke out in Kerak and other towns in traditionally pro-Hashemite areas when bread prices almost tripled after government subsidies were decreased. (NOTE: The GOJ is currently considering the removal of all subsidies on bread at IMF insistence. END NOTE.) There were also protests that same year targeting the Ministry of Education caused by a hike in school fees connected with the IMF program.

COMMENT

17. (C) While the new reformist cabinet has continued appeals for further oil grants from Gulf states (which have been slow in coming), it nevertheless recognizes that the end of fuel subsidies is overdue. Their day of reckoning, however, unfortunately comes at a time when oil prices are at historic highs in nominal terms. Wary of the volatile history of price liberalization in Jordan, and already suffering from an acute lack of public confidence (ref A), the GOJ is hoping that a gradual, phased-in lifting of fuel subsidies will minimize the potentially serious repercussions that higher prices could generate.

HALE